

Inspector General

United States
Department of Defense



Emergency Supplemental Appropriations
for DoD Needs Arising From Hurricane
Katrina at Selected DoD Components

| Report Documentation Page | | | | Form Approved OMB No. 0704-0188 | |
|--|------------------------------------|-------------------------------------|---|---|---------------------------------|
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| 1. REPORT DATE 12 SEP 2007 | | 2. REPORT TYPE | | 3. DATES COVERED 00-00-2007 to 00-00-2007 | |
| 4. TITLE AND SUBTITLE Emergency Supplemental Appropriations for DoD Needs Arising From Hurricane Katrina at Selected DoD Components | | | | 5a. CONTRACT NUMBER | |
| | | | | 5b. GRANT NUMBER | |
| | | | | 5c. PROGRAM ELEMENT NUMBER | |
| 6. AUTHOR(S) | | | | 5d. PROJECT NUMBER | |
| | | | | 5e. TASK NUMBER | |
| | | | | 5f. WORK UNIT NUMBER | |
| 7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) ODIG-AUD Department of Defense Inspector General, 400 Army Navy Drive Suite 801, Arlington, VA, 22202-4704 | | | | 8. PERFORMING ORGANIZATION REPORT NUMBER | |
| 9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES) | | | | 10. SPONSOR/MONITOR'S ACRONYM(S) | |
| | | | | 11. SPONSOR/MONITOR'S REPORT NUMBER(S) | |
| 12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited | | | | | |
| 13. SUPPLEMENTARY NOTES | | | | | |
| 14. ABSTRACT | | | | | |
| 15. SUBJECT TERMS | | | | | |
| 16. SECURITY CLASSIFICATION OF: | | | 17. LIMITATION OF ABSTRACT Same as Report (SAR) | 18. NUMBER OF PAGES 53 | 19a. NAME OF RESPONSIBLE PERSON |
| a. REPORT unclassified | b. ABSTRACT unclassified | c. THIS PAGE unclassified | | | |

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Acronyms

| | |
|----------|--|
| AAFES | Army and Air Force Exchange Service |
| AFB | Air Force Base |
| DCMA | Defense Contract Management Agency |
| DeCA | Defense Commissary Agency |
| DESC | Defense Energy Support Center |
| DFAS | Defense Finance and Accounting Service |
| DHP | Defense Health Program |
| DLA | Defense Logistics Agency |
| DoDEA | Department of Defense Education Activity |
| DoD IG | DoD Inspector General |
| FEMA | Federal Emergency Management Agency |
| FMR | Financial Management Regulation |
| MIPR | Military Interdepartmental Purchase Request |
| NASA | National Aeronautics and Space Administration |
| O&M | Operations and Maintenance |
| TMA | Tricare Management Activity |
| USD(C) | Under Secretary of Defense (Comptroller) |
| USD(P&R) | Under Secretary of Defense (Personnel and Readiness) |
| USSOCOM | United States Special Operations Command |



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

September 12, 2007

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE COMMISSARY AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Report on Emergency Supplemental Appropriations for DoD Needs Arising
From Hurricane Katrina at Selected DoD Components
(Report No. D-2007-121)

We are providing this report for your review and comment. This audit was performed in support of Public Law 109-62. We considered management comments on a draft of this report in preparing the final report.

DoD 7650.3 requires that all issues be resolved promptly. The Under Secretary of Defense (Comptroller) comments of the draft report conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required. The Defense Finance and Accounting Service did not concur with Recommendation 2. We request that the Director, Defense Finance and Accounting Service reconsider his decision and provide additional comments to the final report and Recommendation 2 by October 22, 2007.

We request that management provide comments that conform to the requirements of DoD Directive 7650.3. If possible, please send management comments in electronic format (Adobe Acrobat file only) to auidfs@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Lorin T. Pfeil at (703) 325-5568 (DSN 221-5568) or Mr. Henry Y. Adu at (703) 325-6008 (DSN 221-6008). See Appendix D for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, reading "Paul J. Granetto", is positioned above the printed name.

Paul J. Granetto, CPA
Assistant Inspector General and Director
Defense Financial Auditing Services

Department of Defense Office of Inspector General

Report No. D-2007-121

September 12, 2007

(Project No. D2006-D000FE-0010.002)

Emergency Supplemental Appropriations for DoD Needs Arising From Hurricane Katrina at Selected DoD Components

Executive Summary

Who Should Read This Report and Why? Military and civilian personnel who manage and account for DoD appropriated funds should read this report. This report discusses the management and use of funds appropriated for DoD needs arising from hurricanes in the 2005 hurricane season.

Background. There were 15 hurricanes in the 2005 hurricane season, which began on June 1 and ended on November 30, 2005. Seven of these became major hurricanes, which included Hurricanes Katrina, Rita, and Wilma. On August 29, 2005, Hurricane Katrina made landfall at the U.S. Gulf Coast causing severe damage and loss of life in Alabama, Louisiana, and Mississippi. Hurricane Rita made landfall at the Texas-Louisiana border on September 24, 2005, causing severe damage in the affected areas. Hurricane Wilma made landfall at Florida on October 24, 2005. The President declared the affected locations disaster areas, making them eligible to receive Federal funding. The Federal Emergency Management Agency (FEMA), the primary Federal agency responsible for providing emergency relief in the United States, gave reimbursable funding authority to DoD to provide support and other humanitarian assistance to the victims of the hurricanes. Congress also provided emergency supplemental appropriations to DoD for DoD needs arising from Hurricane Katrina and other hurricanes in the 2005 hurricane season.

In a September 15, 2005, letter to the Secretary of Homeland Security, the House Government Reform Committee and its Subcommittee on Financial Management (now the Subcommittee on Government Management, Organization, and Procurement) tasked the Secretary to coordinate with the DoD Office of Inspector General to audit and provide oversight to ensure that FEMA funds were used for their intended purposes. We issued our report on that audit on September 27, 2006. We expanded the scope of our audit to include the emergency supplemental appropriations to meet DoD needs arising from Hurricane Katrina. We have used the term Hurricane Katrina to describe the DoD needs arising from all hurricanes in the 2005 hurricane season. This report is one in a series discussing the use of DoD resources to support the Hurricane Katrina relief efforts.

Results. We performed this audit to determine if the emergency supplemental appropriations for DoD needs arising from Hurricane Katrina were used for their intended purposes. Generally, the DoD Components we visited used the emergency supplemental appropriations for these needs. However, some of the Components did not manage the emergency supplemental appropriations efficiently. Components inefficiently used or allowed about \$26.8 million emergency supplemental appropriated funds, that could have been used by other Components for their Hurricane Katrina needs,

to expire. One Component used \$219,347 of the emergency supplemental appropriation for needs that did not result from Hurricane Katrina, and three Components used about \$935,680 of the emergency supplemental appropriations to pay for expenses that were reimbursable by FEMA, but did not seek reimbursement from FEMA. In addition, other Components used about \$2.1 million of their regular appropriations for their Hurricane Katrina needs. At some of the Components, we could not determine if the funds were expended on their Hurricane Katrina needs because they did not use unique accounting codes to collect and record their Hurricane Katrina transactions. (See the Finding section of the report for the detailed recommendations.) Implementing the recommendations would allow DoD to put funds to better use when natural disasters occur by improving funds allocation processes and DoD could also recover \$935,680 reimbursement from FEMA. (See Appendix C for a summary of potential monetary benefits.)

Management Comments and Audit Response. The Acting Deputy Chief Financial Officer partially concurred with Recommendations 1.a., 1.b., and 1.d., and concurred with Recommendation 1.c. The Deputy Director, Defense Finance and Accounting Service (DFAS) Columbus nonconcurred with Recommendation 2. Although management comments were not required, the Director, Defense Commissary Agency (DeCA) provided comments on the draft report. See the finding section for a discussion of management comments and the Management Comments section of the report for a complete text of the comments.

The comments from the Acting Deputy Chief Financial Officer are responsive and no additional comments are required. Although DFAS did not concur with the recommendations, DFAS comments partially met the intent of the recommendation. However, the comments indicate that DFAS is more concerned with the amount of an error on a paid voucher than with the consistent frequency that errors occurred on paid vouchers. Regardless of the amount paid because of errors as indicated in the comments, there is an indication of an inherent systemic problem in the processing and payment of vouchers at the DFAS Columbus Travel Office. We request that DFAS reconsider its position on the recommendation and provide comments on the final report by October 22, 2007. The DeCA comments are incorrect and inconsistent with information provided to us. The DeCA headquarters personnel told us that property records were maintained at the stores and everything (including the equipment records) at hurricane-damaged stores were destroyed. DeCA did not, and could not have been able to, provide us with “non-accountable equipment purchase history of 35 percent of the total equipment purchases for the hurricane-damaged stores” as stated in the comments. Also, in an August 22, 2006, e-mail message to us, DeCA Chief of Program Control and Customer Support stated that DeCA tried to find what percentage of non-accountable property was compared to equipment inventory and came up with a range of 33-35 percent; she used 35 percent as an educated estimate. In addition, the amounts reported in the comments as equipment purchases for hurricane-damaged stores are post Hurricane Katrina purchases and have no relevance to the 35 percent factor which they told us was based on historical purchases.

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Background

There were 15 hurricanes in the 2005 hurricane season, which began June 1 and ended November 30, 2005. Seven of these became major hurricanes, which included Hurricanes Katrina, Rita, and Wilma. On August 29, 2005, Hurricane Katrina made landfall at the U.S. Gulf Coast causing severe damage and loss of life in Alabama, Louisiana, and Mississippi. Hurricane Rita made landfall at the Texas-Louisiana border on September 24, 2005, causing severe damage in the affected areas. Hurricane Wilma made landfall at Florida on October 24, 2005. The President declared the affected locations disaster areas, making them eligible to receive Federal funding. Between September 2005 and June 2006, Congress provided four emergency supplemental appropriations to DoD to meet DoD needs arising from Hurricane Katrina and other hurricanes in the 2005 hurricane season. We have used the term Hurricane Katrina to describe the DoD needs arising from all hurricanes in the 2005 hurricane season.

This audit was performed in support of Public Law 109-62, “Second Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising from the Consequences of Hurricane Katrina, 2005,” September 8, 2005. The law requires the Inspector General, Department of Homeland Security, to audit and investigate funds expended on Hurricane Katrina response and recovery activities. In a letter to the Secretary of Homeland Security on September 15, 2005, the House Government Reform Committee and its Subcommittee on Financial Management (now the Subcommittee on Government Management, Organization, and Procurement) tasked the Secretary to coordinate with the DoD Inspector General (DoD IG) to increase its auditing and investigative capabilities to ensure that the funds were used for their intended purposes. We issued our report on that audit on September 27, 2006. We expanded the scope of our audit to include all four of the emergency supplemental appropriations for DoD needs arising from Hurricane Katrina. This report is one in a series discussing the use of DoD resources to support the Hurricane Katrina relief efforts.

Public Law 109-61. “Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising From the Consequences of Hurricane Katrina, 2005,” September 2, 2005, provided \$500 million for Operation and Maintenance (O&M) Defense-wide for DoD emergency hurricane expenses to support costs of evacuation, emergency repairs, personnel deployment, and other costs resulting from immediate relief efforts.

Public Law 109-62. “Second Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising From the Consequences of Hurricane Katrina, 2005,” September 8, 2005, provided \$1.4 billion for O&M Defense-wide for DoD emergency hurricane expenses to support costs of evacuation, emergency repairs, personnel deployment, and other costs resulting from immediate relief efforts.

Public Law 109-148. “Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza Act, 2006,” December 30, 2005, included over \$24.7 million O&M Defense-wide to remain available until September 30, 2006, for necessary expenses related to the consequences of hurricanes in the Gulf of Mexico in the

calendar year 2005. About \$173 million additional O&M funding was provided to the Defense Health Program (DHP), over \$6.1 million for the Defense Working Capital Funds, and over \$37.7 million for the Defense Commissary Agency (DeCA) Surcharge Collections fund. Other DoD Components received additional funding under this public law.

Public Law 109-234. “Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006,” June 15, 2006, included about \$33.9 million for DHP, over \$1.2 million for the Defense Working Capital Funds, and over \$10.5 million for DeCA Surcharge Collections fund. Additional funding was provided to other DoD Components under this law.

Objectives

Our overall audit objective was to determine if the emergency supplemental appropriations for DoD needs arising from Hurricane Katrina were used for their intended purposes. See Appendix A for a discussion of the scope and methodology of our review, and for prior coverage related to the objectives.

Compliance With the Emergency Supplemental Appropriations for DoD Needs Arising From Hurricane Katrina

Generally, the DoD Components we visited used the emergency supplemental appropriations for their needs arising from Hurricane Katrina. However, some of the Components did not manage the emergency supplemental appropriations efficiently. The appropriations were mismanaged because the Components:

- could not estimate their Hurricane Katrina needs before the authority to obligate the first emergency supplemental appropriation was to expire and therefore obligated more funds than they needed,
- used the emergency supplemental appropriations for non-Hurricane Katrina needs, and
- used the emergency supplemental appropriations for reimbursable expenses and did not bill for reimbursements.

In addition to mismanaging the appropriations, some Components:

- used their regular appropriations in addition to their emergency supplemental appropriations for their Hurricane Katrina needs, or
- did not establish unique accounting codes to record and track expenditures for their Hurricane Katrina needs.

As a result, some Components inefficiently used or allowed about \$26.8 million emergency supplemental appropriated funds, that could have been used by other Components for their Hurricane Katrina needs, to expire. Furthermore, one Component used \$219,347 of the emergency supplemental appropriation for its needs that did not result from Hurricane Katrina, and three Components used about \$935,680 of the emergency supplemental appropriations to pay for expenses that were reimbursable by the Federal Emergency Management Agency (FEMA) but did not seek reimbursement from FEMA. In addition, other Components used about \$2.1 million of their regular appropriations for their Hurricane Katrina needs. At some of the Components, we could not determine if the funds were expended on their Hurricane Katrina needs because they did not use unique accounting codes to collect and record their Hurricane Katrina transactions.

Criteria

DoD Policies. DoD Financial Management Regulation (FMR) provides guidance on the administrative control of DoD funds. The Under Secretary of Defense (Comptroller) (USD[C]) issued additional guidance to DoD Components for the recording and reporting DoD assistance to support the Hurricane Katrina relief efforts.

FMR. The FMR provides guidance for the use of appropriated funds. FMR volume 14, chapter 1, “Administrative Control of Appropriations,” October 2002, establishes policy and procedures for the administrative control of funds. The policy requires DoD Components to “restrict the use of limitations on available funds to those necessary to comply with statutory provisions, such as those imposed by the appropriate DoD authorization or DoD Appropriations Act, or to address specific management requirements.” The policy also requires DoD Components and officials to obligate and expend funds for the purposes authorized by the type of fund or account. FMR volume 14, chapter 2, “Violations of the Antideficiency Act,” August 2006, states that a violation of the Antideficiency Act may occur if “regulatory limitation on the purpose for which an appropriation or fund may be used are violated, when specifically carrying an antideficiency limitation and corrective funding is not available.”

DoD Reimbursement Guidance. The USD(C) memorandum “Reimbursement Guidance for Hurricane Katrina Relief Efforts,” September 20, 2005, provided guidance to DoD Components performing missions FEMA requested to “ensure an accurate accounting of costs incurred is maintained and timely reimbursement is requested from FEMA.” The memorandum also stated that, as a rule, any cost incurred above normal DoD mission is reimbursable by FEMA under the Stafford Act. Partial or final requests for reimbursement were to be submitted to FEMA no later than 90 days after the completion or termination of an assignment. On September 23, 2005, the USD(C) issued another memorandum, “Reporting of Hurricane Katrina Relief Costs,” which provided guidance to DoD Components on collecting and reporting costs associated with the DoD Hurricane Katrina disaster relief efforts. The memorandum also stated that DoD FEMA reimbursable costs include security operations; personnel search, rescue, and recovery operations; personnel evacuation; medical support; transportation of personnel; supplies and equipment; restoration of basic utilities; and the provision and distribution of basic sustainment items.

Joint Travel Regulation. The Joint Travel Regulation provides guidance for DoD Military and civilian employees. According to the Joint Travel Regulation volume II, chapter 4, part L, section C4567, “Per Diem for Employees and/or Dependents while at Safe Haven Incident to an Evacuation From a PDS¹ Within CONUS² or non-Foreign OCONUS³ Location,” September 22, 2005, evacuated employees and dependents are authorized a per diem allowance under the

¹ Permanent Duty Station.

² Continental United States.

³ Outside the Continental United States.

Lodgings-Plus per diem computation method for each day they are in an evacuation status. Beginning on the 31st day, per diem is computed at 60 percent (for employee and dependents 12 or older) and 30 percent (for dependents under 12) of the applicable per diem rate.

Example of DoD Hurricane Katrina Needs

DoD facilities were severely damaged by Hurricane Katrina. The Air Force took the following pictures of Keesler Air Force Base shortly after the hurricane.



Rear of Dolan Hall



Front of the Commissary Store



Restroom between 12th and 13th holes at the Golf Course



View of D Street Near Central Steam Plant

Allocation of the Emergency Supplemental Appropriations

USD(C) allocated the emergency supplemental appropriations to DoD Components that included O&M; Working Capital Funds; Procurement; and Research, Development, Test, and Evaluation. We only reviewed O&M funds and Working Capital funds that had been obligated at the time of our site visits. We did not review allocations for Procurement and for Research, Development, Test, and Evaluation because the availability for incurring new obligations with the funds had not expired at the time of our visits. See Appendix A for a discussion of the scope and methodology of our review and Appendix B for the total DoD emergency supplemental appropriations by public law. Table 1 shows O&M and Working Capital funds that the USD(C) initially allocated from the emergency supplemental appropriations to the Components we visited.

| Table 1 Emergency Supplemental Appropriation to DoD Components Obligation Authority (in millions) | | |
|---|-----------------------------|-------------------------------|
| <u>Component</u> | <u>O&M Funds</u> | <u>Working Capital</u> |
| Defense Health Program* | \$227.4 | 0.0 |
| Department of Defense Education Activity | 68.0 | 0.0 |
| Defense Commissary Agency | 0.0 | \$52.7 |
| Defense Logistics Agency | 5.3 | 20.7 |
| United States Special Operations Command | 7.5 | 0.0 |
| Defense Contract Management Agency | <u>5.3</u> | <u>0.0</u> |
| Total | \$313.5 | \$73.4 |
| <small>*The Defense Health Program received and allocated the funds to other Components based on its own allocation formula. The Defense Health Program received an additional \$28.6 million in Procurement Funds.</small> | | |

The first emergency supplemental appropriation was enacted on September 2, 2005, about 4 days after Hurricane Katrina made landfall on August 29, 2005. Some of the Components did not receive their funding authority until September 23, 2005, and immediately obligated the total funding before the authority to obligate the funds expired on September 30, 2005.

Estimating Hurricane Katrina Needs

The DoD Components estimated their Hurricane Katrina needs under difficult conditions caused by the hurricane and in a short time frame before the authority to obligate the first emergency supplemental appropriation would have expired. Therefore, USD(C) allocated the emergency supplemental appropriations to some Components in amounts that exceeded their needs. These DoD Components did not manage their emergency supplemental appropriations efficiently. Specifically, DeCA, the Defense Contract Management Agency (DCMA), and three Components that received funding through the Department of Defense Education Activity (DoDEA) did not manage a total of over \$26.8 million of emergency supplemental appropriations efficiently. In an e-mail message on September 26, 2005, the USD(C) requested DoD Components to inform the office of all emergency supplemental funds that were in excess of their FY 2005 requirements. Some Components did return the excess funding to the USD(C) before the authority to obligate the funds expired. Other Components kept the excess funds and used it for other purposes or allowed the availability of the funds for new obligations to expire. We considered the emergency supplemental funding that was used for other than Hurricane Katrina needs or were over-obligated and allowed to expire to have been mismanaged. Table 2 shows the Components that obligated funds in excess of their needs and allowed the funds to expire or received excess funding and did not return the funds to the USD(C) as directed.

| Table 2 Funding Obligated in Excess of Needs or Allowed to Expire by Components Visited (in millions) | | |
|--|-------------------------------------|---|
| <u>Component</u> | <u>Total Funds Obligated</u> | <u>Funds Not Managed Efficiently</u> |
| DeCA | \$52.7 ¹ | 0.0 |
| DCMA | 2.8 ² | \$ 1.0 |
| Army Air Force Exchange Service ³ | 22.8 | 2.7 |
| Navy Exchange Service ³ | 12.8 | 6.1 |
| Army Acquisition, Logistics, and Technology; Simulation, Training, and Instrumentation; Program Executive Office ³ | <u>23.4</u> | <u>17.0</u> |
| Total | \$114.5 | \$26.8 |
| ¹ DeCA obligated \$1.5 million for non-accountable property lost. We consider this obligation to be overstated, but we cannot quantify the dollar amount. ² DCMA obligated \$1.2 million in FY 2005 and \$1.6 million in FY 2006. ³ Received funding through DoDEA. | | |

-
- DeCA received over \$52.7 million for damages at eight commissary stores caused by Hurricane Katrina. At the time of our site visit, DeCA had reserved about \$37.7 million of the \$52.7 million for rebuilding commissary stores that were damaged by Hurricane Katrina. DeCA obligated the remaining \$15 million for the DeCA Resale, Surcharge, and Working Capital funds. For example, DeCA obligated over \$2.9 million for estimated inventory losses at the eight commissary stores. DeCA based the estimate on average book inventory of the three months preceding the hurricane. We found the estimate to be reasonable. DeCA also obligated about \$3.3 million for estimated accountable property losses at three of the eight commissary stores and about \$1.5 million for non-accountable properties at two of the eight commissary stores. DeCA personnel told us that there was no requirement for them to maintain property records for the non-accountable property. DeCA headquarters personnel calculated the non-accountable property loss at 35 percent of the accountable property lost. DeCA officials told us in an e-mail message that a quick review of non-accountable equipment bought for new commissary stores showed that DeCA spent an average of one-third of what was spent for accountable equipment on non-accountable equipment. However, DeCA could not provide us with any evidence to support the claim. Based on the DeCA property books, we found the estimate for the accountable property to be reasonable. Although we cannot quantify the amount, we found the estimate for the non-accountable property to be unreasonable.
 - In FY 2005, DCMA obligated about \$1.2 million of the almost \$2 million supplemental appropriations it received for allowable expenses. Of the \$2 million, \$771,000 was not obligated and was in excess of DCMA needs. DCMA did not inform the USD(C) of the excess funds until August 2, 2006, after our audit inquiries. USD(C) could not reallocate the funds to other Components because by August 2, 2006, the authority to obligate the funds had expired. Because DCMA did not notify USD(C) of the excess funds in a timely manner, DCMA did not manage the \$771,000 efficiently.
 - In FY 2005, DCMA used \$831,651 of the \$1.2 million in emergency supplemental appropriations it obligated to replace lost income from a reimbursable contract with the National Aeronautics and Space Administration (NASA) that DCMA could not perform because of Hurricane Katrina. In addition, DCMA received and obligated over \$1.6 million in emergency supplemental appropriations in FY 2006 and used over \$1.3 million of this amount as lost reimbursable earnings from the NASA contract. DCMA officials told us that the lost income represented DCMA reimbursable earnings for direct labor and support costs for employees who could not perform the NASA contract. According to the officials, the salaries of these employees were funded with earnings from the contract. According to DCMA e-mails, of the 70 DCMA employees displaced by the NASA contract, 66 employees had returned to work as of November 28, 2005, and the remaining 4 employees were supporting other DCMA field offices.

However, in calculating the lost income, DCMA did not make any adjustments for the 4 employees that were not returning to work on the NASA contract. Using the DCMA generated actual hours lost from the contract, we computed that DCMA overstated its lost income for FY 2006 by \$254,697. Therefore, DCMA did not manage the emergency supplemental funding efficiently.

- The Army Air Force Exchange Service (AAFES) received about \$22.8 million of the \$68 million that the Under Secretary of Defense (Personnel and Readiness) (USD[P&R]) Quality of Life Office allocated through the DoDEA to provide Hurricane Katrina emergency intervention funding for Tactical Field Exchange and comfort packs to DoD Military personnel and dependents displaced by the hurricane. AAFES obligated the whole \$22.8 million before the funds expired but expended only \$9.9 million to acquire the Tactical Field Exchange and comfort packs. Of the \$9.9 million expended, 15,670 comfort packs valued at over \$2.7 million were in excess of AAFES needs. AAFES personnel told us that they were told to purchase the items and did not know how much was actually needed. AAFES personnel told us that AAFES did not return the excess comfort packs to the vendors; instead, at the request of the USD(P&R) Quality of Life Office, AAFES shipped the excess comfort packs to Military installations not affected by Hurricane Katrina including those in Kentucky, Missouri, Oklahoma, and Germany. With the purchase of \$2.7 million in excess comfort packs, AAFES did not manage the emergency supplemental funding efficiently.
- On September 23, 2005, the Navy Exchange Service Command received about \$12.8 million of the \$68 million that the USD(P&R) Quality of Life Office allocated through DoDEA to provide Tactical Field Exchange and comfort packs to DoD Military personnel and dependents affected by Hurricane Katrina. The Navy Exchange Service Command obligated the \$12.8 million before the funds expired but only expended about \$6.7 million for the requested items. On October 4, 2006, a Navy Exchange Service Command official told us in an e-mail that they will use a portion of the remaining \$6.1 million to pay travel claims and return the balance to the USD(C) by October 20, 2007. According to the official, the travel claims are expected to be minimal. The funds were O&M funds that expired on September 30, 2005, and could not be used for new obligations, including in October 2007. The Navy Exchange Service Command received funding in excess of their needs and did not efficiently manage the emergency supplemental appropriations it received.
- On September 23, 2005, the Assistant Secretary of the Army for Acquisition, Logistics, and Technology; Simulation, Training, and Instrumentation; Program Executive Office, Orlando, Florida, (the Program Executive Office) received about \$23.4 million of the \$68 million that the USD(P&R) Quality of Life Office allocated through DoDEA to acquire counseling support for members of the Military and their dependents affected by Hurricane Katrina. The

Program Executive Office immediately obligated the entire amount and, on September 26, 2005, amended an existing contract and awarded the \$23.4 million to the contractor for the requested services.⁴ Program Executive Office personnel told us that they received the funding and had to obligate it before the availability of funds for new obligations expired on September 30, 2005. According to the Program Executive Office, “the use of the funds for the purposes intended fell well short of expectations” by approximately \$17 million. The Program Executive Office indicated they could have used the funds in FY 2006 if the “funds had been turned back to USD(C) in FY 2005 and then reissued in FY 2006.” However, the authority to obligate the funds expired on September 30, 2005. The Program Office Executive did not efficiently manage the \$17 million emergency supplemental appropriations that were allowed to expire.

Under Public Law 109-61, the Secretary of Defense had authority to transfer the funds from the O&M account to other accounts and the USD(C) could reallocate the funds from one DoD Component to another. We believed that had these Components managed their funds efficiently and had returned the excess funds, the USD(C) could have allocated the funds to those Components that did not receive enough funding to meet their needs.

Emergency Supplemental Appropriations Used for Non-Hurricane Katrina Needs

One Component used the emergency supplemental appropriation for its needs that did not result from Hurricane Katrina. Specifically, DCMA used \$219,347 to purchase 70 desktop computers, 27 laptop computers, 17 BlackBerries, and other computer-related equipment. DCMA did not record the new equipment in its equipment database, the Defense Property Accountability System, as required by DCMA internal policies. We asked DCMA for a listing of computer equipment that was destroyed or damaged because of Hurricane Katrina or any other hurricane and DCMA was not able to provide us with a listing. DCMA officials told us that to the best of their knowledge they lost one computer and one router. DCMA could not provide us with the support for these losses. However, in an internal e-mail message on January 12, 2006, a DCMA official stated that DCMA obtained the laptop computers and the BlackBerries to help DCMA offices recover from the devastation of Hurricanes Katrina and Rita. The e-mail also stated that “all our old BlackBerries are out of warranty so we want to replace BlackBerries already deployed with the new ones.” Regarding the 27 laptops, the official stated in the e-mail that “the purchase will give us the opportunity to repair and replace needed ADP [Automated Data Processing] capacity.” On September 8, 2005, prior to the purchase of the computers and the BlackBerries, another DCMA official had questioned the planned purchase and stated in an e-mail message on “Releasing Funds for Hurricane Katrina” to the requesting

⁴A Defense Hotline investigation on the award of the contract was in progress at the time of our audit site visit. We did not review the award of the contract or attempt to validate the allegation.

official that she would “wait and get a better feel on whether our equipment was really destroyed.”

Congress appropriated the emergency supplemental funding for DoD needs arising from Hurricane Katrina. According to the DoD FMR, an Antideficiency Act violation may occur if regulatory limitations on the purpose for which an appropriation or fund may be used are violated. We believe that Congress did not intend DoD Components to use the emergency supplemental appropriations to replace their computers and other equipment that were not destroyed by Hurricane Katrina. Because DCMA used the emergency supplemental appropriation to acquire new computer and computer-related equipment and not to replace lost or damaged computers related to Hurricane Katrina, the emergency supplemental appropriations were not used for their intended purposes. According to the DoD FMR, if a Component used appropriated funds for other than their intended purposes and does not have current year funds to replace the used appropriated funds, the Component may have an Antideficiency Act violation. Therefore, the DCMA use of the emergency supplemental appropriations to acquire new computers without support that the computers were destroyed by Hurricane Katrina is a potential violation of the Antideficiency Act.

Emergency Supplemental Appropriations Used For FEMA Mission Assignments

After Hurricane Katrina had made landfall on the U.S. Gulf Coast, FEMA gave reimbursable funding authority to DoD to perform specific mission assignments⁵ to provide relief and other humanitarian assistance to the victims of the hurricane. DoD guidance states that as a general rule, any cost incurred above normal DoD mission in the relief efforts is reimbursable by FEMA under the Stafford Act. Three Components we visited used in total about \$935,680 of the emergency supplemental appropriations to pay for expenses related to the FEMA request, but the Components did not seek reimbursement from FEMA. Table 3 shows the amounts that the Components should have billed FEMA for reimbursement.

⁵Mission assignment is a funding document that FEMA provided to DoD that described a particular assistance or tasking that FEMA requested DoD to perform.

Table 3
Emergency Supplemental Appropriations Used for FEMA Mission
Assignments by Component Visited

| <u>Component</u> | <u>Amount</u> |
|---|----------------------|
| Defense Logistics Agency | \$171,500 |
| The National Naval Medical Center-Bethesda | 56,280 |
| U.S. Army Center for Health Promotion and Preventive Medicine | <u>707,900</u> |
| Total | \$935,680 |

- The Operations and Readiness office of the Defense Logistics Agency (DLA) used \$119,628 of its emergency supplemental appropriations to pay for expenses that should have been charged to a FEMA mission assignment. The expenses included travel cost for employees who assisted Hurricane Katrina victims and the labor cost for an employee who was detailed to work for FEMA during the hurricane recovery efforts. Also, the Defense Energy Support Center (DESC), a field activity of DLA, spent \$51,872 of the DoD emergency supplemental appropriation to acquire telephones, labor, and travel expenses for employees who were sent to help the DoD hurricane relief efforts rather than charge the cost to a FEMA mission assignment. According to a DESC official, the employees traveled to the hurricane area to “inspect fuel and act as liaison for Federal, Military, and local authorities for fuel distribution.” The U.S. Northern Command gave DLA a FEMA mission assignment (1604DR-MS-DoD-19) to provide planning and execution for the procurement, transportation, and distribution of ice, water, food, fuel, and medical supplies in support of the Hurricane Katrina relief efforts. On September 27, 2006, we reported that the DESC obligated about \$4.8 million against this mission assignment.⁶ DLA should also have charged the \$119,628 and the \$51,872, for a total of \$171,500, to this FEMA mission assignment.
- The National Naval Medical Center, Bethesda, Maryland, obligated \$56,280 of emergency supplemental funds for transportation cost for personnel that assisted Hurricane Katrina victims on the USNS Comfort, a hospital ship. On August 31, 2005, FEMA gave DoD an initial mission assignment valued at \$5 million requesting DoD to “supply hospital ship and first responders supporting the recovery efforts due to the devastation of Hurricane Katrina.” The mission assignment (1603DR-LA-DoD 07) was amended to include a FEMA requirement for patient beds on the USNS Comfort and for first responders support. The National Naval

⁶DoD IG Report No. D2006-118, “Financial Management of Hurricane Katrina Relief Efforts at Selected DoD Components,” September 27, 2006.

Medical Center should have charged the transportation cost of \$56,280 to the FEMA mission assignment.

- The U.S. Army Center for Health Promotion and Preventive Medicine (the Center) at Aberdeen, Maryland, spent \$707,900 emergency supplemental funds on supplies, travel, overtime pay, and benefits to assist the DoD Hurricane Katrina relief efforts. The amount was part of the DHP allocation of funds. The tasking to the Center clearly stated that it was related to Hurricane Katrina disaster relief. Personnel who traveled provided “continued support to Joint Task Force Katrina.” Joint Task Force Katrina was set up as a DoD organization under the U.S. Northern Command to lead the DoD Hurricane Katrina relief efforts. According to the USD(C) memorandum of September 23, 2005, the Center should have charged the \$707,900 to a FEMA mission assignment.

The purpose of the mission assignments was to ensure that FEMA funds, and not DoD funds, were expended on FEMA-directed DoD assistance and support for the hurricane relief efforts. DoD should request reimbursement from FEMA for the funds expended on FEMA directed mission assignments.

Use of Components Own Funds for Hurricane Needs

Some of the Components we visited used about \$2.1 million of their regular funds in addition to their emergency supplemental appropriations for their Hurricane Katrina needs. Table 4 shows the Components that used other funds to augment the emergency supplemental funding for their Hurricane Katrina needs. We do not have evidence that these Components requested and were denied additional funding by USD(C). However, had the other Components returned their excess funding, the USD(C) could have reallocated the funds and these Components would not have had to use their regular appropriations to augment their emergency supplemental appropriations for their hurricane needs.

| Table 4 Funds Other Than Emergency Supplemental Appropriations Used for Hurricane Katrina Needs by Components Visited | | | |
|--|--|--|------------------------------|
| <u>Component</u> | <u>Total Amount Obligated for Hurricane Katrina Needs</u> | <u>Emergency Supplemental Appropriations Used</u> | <u>Own Funds Used</u> |
| Air Force Medical Operations Agency, Brooks City Base | \$15,188,437 | \$13,435,937 | \$1,752,500 |
| U.S. Army Center for Health Promotion and Preventive Medicine | 842,664 | 707,900 | 134,764 |
| Naval Hospital, Pensacola | 581,962 | 470,000 | 111,962 |
| Naval Medical Center, Bethesda | 302,628 | 250,000 | 52,628 |
| Walter Reed Medical Center | 41,132 | 20,500 | 20,632 |
| Navy Medicine Support Command, Jacksonville | <u>2,092,226</u> | <u>2,080,000</u> | <u>12,226</u> |
| Total | \$19,049,049 | \$16,964,337 | \$2,084,712 |

Unique Accounting Codes

Some of the Components used unique accounting codes to track and record transactions for their Hurricane Katrina needs. These unique accounting codes provided an audit trail and were very helpful in our review. However, not all the Components we visited established or used unique accounting codes to identify their Hurricane Katrina relief transactions. Specifically, one site we visited used a unique accounting code to track and record its Hurricane Katrina transactions. Two sites we visited did not use or could not support unique accounting codes and, therefore, these sites did not have audit trails for us to determine if the emergency supplemental appropriations were used for their intended purposes. For example,

- The Program Executive Office used a unique accounting code. With this code, we were able to identify about \$1.8 million of non-Hurricane Katrina related expenses that were paid with emergency supplemental funding and over \$1.1 million of Hurricane Katrina expenses that were paid with funds other than non-emergency supplemental funding. We informed the Program Executive Office of these errors, and we were satisfied with their proposed actions to correct the errors.
- In a memorandum to the USD(C), “Internal Controls for Hurricane Procurement and Spending,” September 28, 2005, DeCA stated that it was tracking all financial transactions related to Hurricane Katrina by establishing a unique accounting document number. However, DeCA

officials told us that DeCA did not set up a unique code to record and track its Hurricane Katrina-related transactions. As a result, we do not have reasonable assurance that the universe of transactions DeCA provided to us included all Hurricane Katrina-related expenses.

- Officials of Tricare Management Activity (TMA)-West told us they used a suballotment code to track and account for Hurricane Katrina funding disbursements. However, TMA-West could not provide us with any documentation to support the amounts in the suballotment code. A TMA-West official told us that TMA-West did not have procedures in place to track Military personnel and their family members who relocated because of Hurricane Katrina. As a result, we were unable to determine how much of the \$33.8 million emergency supplemental appropriations that TMA-West received were used for the intended purposes.

Other Matters of Interest

DCMA Travel and Other Payments. We found errors with the payment of travel vouchers and expenses related to evacuated DCMA employees. For example, the Defense Finance and Accounting Service (DFAS) paid an evacuated employee \$500 for a hotel stay that had been handwritten on a receipt similar to those sold at regular supply stores. The name and location of the hotel were not identified on the receipt. DFAS paid another evacuated employee \$1,433 for 2,955 “in and around” miles when the employee was not approved to receive payment for the miles. Also, according to the Joint Travel Regulation policies, employees and their dependents evacuated to a safe haven location as the result of Hurricane Katrina were entitled to 60 percent of the per diem rate for the location starting on the 31st day of stay at a temporary location. We found one instance where DFAS paid an employee and one dependent 80 percent rather than the approved 60 percent rate for 33 days, an overpayment of \$508. Based on our audit, DFAS agreed to perform 100 percent review of all travel vouchers and Hurricane Katrina entitlement payments to DCMA employees. In addition, because of our audit, DFAS sent debt collection letters to the employees we identified as overpaid.

DFAS provided us with the results of their review on February 26, 2007. The DFAS review concluded that 213 of 267 vouchers reviewed contained errors totaling \$29,743 underpayments and \$57,860 overpayments to DCMA employees. We reviewed 13 of the 267 vouchers that DFAS had reviewed and found errors in 10 of the 13 sample vouchers. Because of this high error rate, we stopped our review of the results of the DFAS audit. We communicated the results of our review to DCMA and to DFAS. The errors included a total underpayment of \$220 and a total overpayment of \$6,422. The amount of the errors on the individual vouchers may not be material; however, the cumulative effect of the amounts and the error rate of the vouchers reviewed and paid by DFAS indicate a systemic problem and is therefore of a material concern to us. For example, one employee was paid \$1,500 lodging expenses per month for four months on a handwritten receipt provided by the employee for 3 of 4 months and

no receipt for the fourth month. DFAS recalculated this voucher and sent a debt collection letter to the employee on March 6, 2007.

Tracking Funds Allocation. DHP could not provide us with accurate data on the funding that DHP allocated to other Components, which adversely affected the time we spent on the audit. We used funds allocation spreadsheets provided by DHP to select the sites to visit. The spreadsheets did not include accurate information, and therefore, affected which sites we selected to visit. For example, the DHP spreadsheet indicated that the Naval Hospital, Jacksonville, Florida, received \$111,000 emergency supplemental appropriation. Officials at this location told us that they did not receive any emergency supplemental appropriation. We believe the information from the Naval Hospital, Jacksonville to be accurate. In addition, the spreadsheet indicated that DHP allocated about \$126.3 million to TMA-West. However, our review of funding documents at TMA-West indicated that the funding was about \$33.8 million. For most of the DHP sites, the amounts on the spreadsheet varied significantly from the actual amounts the Components received. We relied on the supporting documentation provided to us by the Components to determine the funding that the Components received.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Under Secretary of Defense (Comptroller):

a. Develop a formal process for DoD Components to identify their needs in emergency situations, review their needs and funding requirements, request additional funding when necessary, and return funding in excess of their needs to the Comptroller.

Management Comments. The Acting Deputy Chief Financial Officer partially concurred with the recommendation and stated that the Office of the Under Secretary of Defense (Comptroller) (Program/Budget) will update the DoD Financial Management Regulation to address issues related to domestic contingencies no later than November 2007. In addition, the Acting Deputy Chief Financial Officer stated that the Office of the Under Secretary of Defense (Comptroller) will address Component responsibilities for managing supplemental appropriations for disaster operations in a memorandum to be issued in August 2007.

Audit Response. Although the Acting Deputy Chief Financial Officer partially concurred with the recommendation, we consider the comments responsive and no additional comments are required.

b. Perform an independent assessment and determine whether a formal investigation should occur for potential Antideficiency Act violations of the Defense Contract Management Agency use of emergency supplemental appropriations to purchase computer equipment.

Management Comments. The Acting Deputy Chief Financial Officer partially concurred with the recommendation and stated that under the DoD Financial management regulations the Under Secretary of Defense (Comptroller) does not perform an assessment to determine if a potential Antideficiency Act violation has occurred. Rather, the Under Secretary of Defense (Comptroller) may request the affected Component to perform a preliminary review and provide the results of the review to his office. The Acting Deputy Chief Financial Officer also stated that, in this instance, the Defense Contract Management Agency has voluntarily performed a preliminary review that revealed a violation of the Antideficiency Act had occurred and that the Defense Contract Management Agency has corrected the violation.

Audit Response. Although the Acting Deputy Chief Financial Officer partially concurred with the recommendation, we consider the comments responsive and no additional comments are required. However, we suggest that the Under Secretary of Defense (Comptroller) ensure that the Defense Contract Management Agency report the Antideficiency Act violation in accordance with the DoD Financial Management Regulation.

c. Require the Director, Defense Logistics Agency, and the Director, Defense Health Programs to work with the Defense Finance and Accounting Service and the U.S. Northern Command to seek reimbursement from the Federal Emergency Management Agency for funds expended on the Federal Emergency Management Agency mission assignments.

Management Comments. The Acting Deputy Chief Financial Officer concurred with the recommendation and stated that the Defense Logistics Agency and the Defense Health Program are both working with the Defense Finance and Accounting Service and the United States Northern Command to verify the costs and bill the Federal Management Emergency Agency for reimbursement. He also stated that his office will monitor the progress until the Federal Emergency Management Agency mission assignments are closed.

Audit Response. The Acting Deputy Chief Financial Officer comments are responsive and no additional comments are required. We have assisted the U.S. Northern Command to identify the Federal Emergency Management Agency mission assignments that the Defense Logistics Agency and the Defense Health Programs should have used in the billings.

d. Require DoD Components to develop unique accounting codes to track and record the use of appropriated funds for their needs arising from disasters and civil emergencies.

Management Comments. The Acting Deputy Chief Financial Officer partially concurred with the recommendation and stated that the Under Secretary of Defense (Comptroller) agrees that all disasters or civil emergency costs recorded in accounting systems should be coded. The Acting Deputy Chief Financial Officer also stated that the requirement was reinforced in an Under Secretary of Defense (Comptroller) memorandum on "Financial Management Preparation for 2006 Hurricane Season" and the requirement will be included in the 2007 edition

of an annual memorandum to be issued in August 2007 and in the U.S. Northern Command FY 2007 Hurricane Execute Order.

Audit Response. The Acting Chief Financial Officer partially concurred with the recommendations. The comments are responsive and no additional comments are required.

2. We recommend that the Director, Defense Finance and Accounting Service, perform an audit of travel and relocation vouchers paid with the emergency supplemental appropriations to Defense Contract Management Agency employees and take corrective actions based on the results of the audit.

Management Comments. The Deputy Director, DFAS Columbus nonconcurred with the recommendations and stated that the DFAS Columbus has taken the specific steps and corrective actions to address the deficiencies identified in the report. The Deputy Director also stated that the DFAS Columbus Travel Office has completed a review to determine the possibility or extent of systemic problems involved in the high error rate identified in the audit report; its review identified four issues that led to the high error rate. In addition, the Deputy Director stated that DoD IG auditors initiated a review of 267 audited vouchers that the DFAS Columbus Travel Office had reviewed. Because the DoD IG found 11 errors in 13 of the audited vouchers, the DoD IG auditors terminated their review. The Deputy Director also stated that only 5 of the 13 vouchers were in error and the total amount of 3 of the errors was less than \$33. The DFAS Columbus Travel Office has completed corrective actions to ensure adequate internal controls are in place and to address deficiencies identified in the audit. It has shared the results of the corrective actions and lessons learned for processing emergency evacuation vouchers with the DFAS Indianapolis Travel Office. Finally, the Deputy Director stated that conducting another 100 percent audit of DCMA Hurricane Katrina evacuation vouchers would not be cost effective and place additional burden on DoD employees affected by Hurricane Katrina.

Audit Response. Although DFAS did not concur with the recommendations, DFAS comments partially met the intent of the recommendation. We communicated the results of our initial review of the paid vouchers to DFAS, and DFAS reviewed the vouchers and provided us with their results. From their results, we found errors in 10 of the first 13 vouchers we selected for review. We therefore terminated our second review and communicated our results again to DFAS. The comments of the Deputy Director, DFAS Columbus indicate that DFAS is more concerned about the dollar amount of an error on a paid voucher rather than the frequency that the errors occurred on the paid vouchers. Regardless of the amount paid because of errors as indicated in the comments, there is an indication of an inherent systemic problem in the processing and payment of vouchers at the DFAS Columbus Travel Office. The four issues that the Deputy Director identified in his comments as leading to the errors are all related to human factors. However, none of the additional corrective actions that the DFAS Columbus Travel Office has taken, as stated in the comments, addressed the four identified issues. Also, we disagree that identifying and correcting the errors would not be cost effective and would place additional burden on DoD employees affected by Hurricane Katrina. We request that DFAS

reconsider its position on the recommendation and provide comments on the final report.

Unsolicited Comments. Although management comments were not required, the Director, DeCA provided comments to the report. DeCA stated that management does not agree with the footnote in Table 2 that we considered the \$1.5 million DeCA has obligated for non-accountable property as overstated. The Director, DeCA stated that DeCA provided the DoD IG auditors with a non-accountable equipment purchase history of 35 percent of the total equipment purchases for the hurricane-damaged stores. He stated that DeCA does not maintain property records for non-accountable property because there is no regulatory requirement to maintain the property records. He also stated that in FY 2005, DeCA spent \$24,500,000 on equipment of which \$14,260,744 was for accountable and \$10,239,226 (41 percent) was for nonaccountable property. In addition, the Director stated that in FY 2006, DeCA spent \$26,300,000 on equipment of which \$8,201,099 was for accountable property and \$18,098,901 (61 percent) was for non-accountable property. He provided similar estimates for FY 2007 purchases in his comments.

Audit Response. The Director, DeCA comments are incorrect and inconsistent with information provided to us. We made several inquiries during and after our site visit to DeCA headquarters and also gave DeCA several opportunities by e-mail messages to provide us with the support for the 35 percent of value of the accountable property estimated to be the value of the non-accountable property lost at the hurricane-damaged stores. DeCA was not able to provide us the support. DeCA headquarters personnel told us that records were maintained at the stores and everything (including the equipment records) at hurricane-damaged stores had been destroyed. In addition, DeCA headquarters personnel told us on numerous occasions that the 35 percent factor they used to estimate the value of non-accountable property lost was based on historical purchases. In an August 22, 2006, e-mail message, DeCA Chief of Program Control and Customer Support told us that DeCA tried to find what percentage of non-accountable property was compared to equipment inventory and with a range of 33 to 35 percent and so she used 35 percent as an educated estimate. Also, DeCA had not purchased any equipment for the hurricane-damaged stores at the time of our site visit as indicated in the comments. DeCA therefore did not and could not provide us with “non-accountable equipment purchase history of 35 percent of the total equipment purchases for the hurricane-damaged stores.” We did not verify the accuracy of the FY 2005 and FY 2006 equipment purchases used to calculate the non-accountable property lost indicated in the DeCA comments. However, we believe that the purchases are post Hurricane Katrina purchases and have no relevance to the 35 percent factor which, DeCA told us, was based on historical purchases. If the FY 2005 and the FY 2006 amounts in the comments are accurate, then DeCA non-accountable property value is based on all equipment purchases and not on accountable property alone as told to us during our audit.

Appendix A. Scope and Methodology

In a September 15, 2005, letter to the Secretary of Homeland Security, the House Government Reform Committee and its Subcommittee on Financial Management (now the Subcommittee on Government Management, Organization, and Procurement) tasked the Secretary to coordinate with the DoD Office of Inspector General to audit and provide oversight to ensure that FEMA funds were used for their intended purposes. We issued our report on that audit on September 27, 2006. We expanded the scope of our audit to include the emergency supplemental appropriations to meet DoD needs arising from Hurricane Katrina under Public Laws 109-61, 109-62, 109-148, and 109-234.

We performed our audit at six DoD Components and their respective field activities from May 2006 through March 2007 in accordance with generally accepted government auditing standards with one exception. The exception related to independence because the DoD IG also received emergency supplemental appropriations for needs arising from Hurricane Katrina. The criteria for our sample selection was that we would not review or visit Components in our audit universe that received one percent or less of the total emergency supplemental appropriations allocated by the USD(C). The funding that DoD IG received did not meet our criteria of sample selection. The exclusion of DoD IG from the sample was strictly based on materiality criteria used for the sample selection and, therefore, had no impact of the results of the audit. We also visited and conducted interviews at the office of the USD(C). We obtained a listing of DoD Components receiving emergency supplemental funding from USD(C) and included in the universe for our audit all those Components receiving more than one percent of the total funding.

We performed the audit using a combination of preliminary analytical testing, site visits, telephone calls, and data calls. We conducted interviews with officials and operating personnel at the sites we visited. We examined their funding documents to confirm the amounts that USD(C) allocated to them. We reviewed obligations to determine if they were for hurricane-related expenses. We reviewed travel documents to determine if the amounts paid by DFAS were reasonable and valid. The details of our reviews are provided in the following paragraphs.

We included in our universe emergency supplemental appropriations that were earmarked for DoD-wide or to specific DoD Components other than the Military Services. We did not include the emergency supplemental appropriations that were specifically earmarked for the Military Services in our universe because the Service audit agencies performed audits at their respective Military Service. We judgmentally selected all DoD Components receiving one percent or more of the emergency supplemental funding included in our universe of review. However, our scope was also limited in that we did not include over \$5.6 million of the emergency supplemental appropriations in our site selection and reviews. On November 3, 2006, after our sample selection and visits to some DoD Components, USD(C) provided us with additional information that over \$5.6 million had been allocated to some DoD Components. As a result, two Components that received over \$3.9 million, which put them over our one percent

threshold and should have been included in our sample, were not included in the sample. In addition, one Component that we had previously visited received an additional \$50,000, which was not included in our review. The scope of our audit was limited in that we did not review the management control program.

Defense Commissary Agency. In FY 2005 and FY 2006, DeCA received over \$52.7 million emergency supplemental appropriation for its Resale, Surcharge, and Working Capital accounts for DeCA needs arising from Hurricane Katrina. We verified the amount received with funding documents. We obtained transaction listings for the Resale, Surcharge, and Working Capital accounts and reviewed 100 percent of the transactions other than credit card purchases. We verified reported amounts of the transactions to supporting documentation including purchase orders, delivery receipts, invoices, and travel vouchers. We judgmentally selected for review 25 credit card purchase transactions valued at \$42,466 from a universe of 179 transactions valued at \$105,924 for the Working Capital and Surcharge funds. The 25 sample transactions included 8 transactions over \$2,500 and 17 transactions under \$2,500. There were no credit card purchases for the Resale account. We reviewed Government Property Loss and Damaged reports and compared the items on the report to both inventory records and DeCA property books to determine the value of DeCA property lost.

Defense Contract Management Agency. In FY 2005 DCMA received about \$2 million and in FY 2006 over \$1.6 million in emergency supplemental appropriations. We verified the amounts to DCMA funding documents. We reviewed the travel orders of the initial DCMA responder to the hurricane area to ascertain the mission for the travel. We reviewed the DCMA contract with the NASA. We also reviewed the DCMA methodology for calculating their FY 2005 and FY 2006 loss reimbursable earnings from the NASA contract. DCMA could not perform the contract because of Hurricane Katrina. We judgmentally selected for review 34 of 124 travel orders for DCMA personnel who were evacuated from the hurricane-affected areas to safe haven locations and filed claims for their evacuation. The employees filed periodic claims for payment and, therefore, an employee could have multiple paid vouchers based on the employee's length of stay at the safe haven location. Because of the errors we found in some of the paid claims, we reviewed all the paid claims for all the individuals in our sample. We reviewed the sampled transactions and verified them to appropriate supporting documentation such as purchase orders, invoices, delivery receipts, payment vouchers, and travel vouchers.

Department of Defense Education Activity. DoDEA served as a conduit and reporting agency for other Components. Funding from the USD(P&R) Quality of Life Office was passed through DoDEA to other Components. We visited DoDEA to obtain funding documents to ensure that all the funds it received were suballocated to the other Components.

Army and Air Force Exchange Service. AAFES received about \$22.8 million emergency supplemental funding in FY 2005 to provide Tactical Field Exchange and comfort packs to Military personnel and their families displaced by Hurricane Katrina. We reviewed Military Interdepartmental Purchase Requests (MIPR) to determine if the amount AAFES received was equal to the funding provided by the USD(P&R) Quality of Life Office. We verified

obligations and expenditures to supporting documentation including billings, individual timesheets, truck shipment records, receipts, temporary workers timesheets, and invoices to determine if the funds were used for their intended purposes. We reviewed price adjustment memorandums to determine if AAFES had adjusted billings accurately.

Navy Exchange Service Command. In FY 2005, the Navy Exchange Service Command (the Command) received about \$12.8 million emergency supplemental funding to provide Tactical Field Exchange and comfort packs for Military personnel and their dependents displaced by the hurricane. We verified the amount received with MIPRs to ascertain if the amount the Command received from DoDEA was equal to the amount that the USD(P&R) Quality of Life Office suballocated to DoDEA. The Command provided us with a transaction listing which included 254 transactions valued at over \$6.7 million. We selected for review all 34 transactions over \$50,000 and 44 additional transactions under \$50,000 for a total of 78 transactions valued at about \$6 million. We traced the transactions to supporting documentation including invoices, travel voucher summaries, Government purchase card bills, journal entries, Store Use Request forms, receipts, and purchase orders to determine if the funds were used for DoD Hurricane Katrina needs.

Navy Installations Command. The Navy Installations Command received about \$10 million of emergency supplemental funding in FY 2005 to provide “recreation and library materials” for DoD personnel at the disaster area. We verified the amount with MIPRs to ascertain if the amount was equal to the amount that the USD(P&R) Quality of Life Office suballocated to DoDEA. We obtained a transaction listing from the Navy Installation Command and judgmentally selected for review 51 transactions valued at \$6.9 million from a universe of 130 transactions valued at about \$10 million. We verified the reported amounts with supporting documentation including invoices, purchase requests, payroll records, and travel vouchers to determine the accuracy of the transaction listing and to determine if funds were used for the intended purposes.

Program Executive Office. The Assistant Secretary of the Army for Acquisition, Logistics, and Technology; Simulation, Training, and Instrumentation; Program Executive Office, Orlando, Florida, (Program Executive Office) received about \$23.4 million emergency supplemental appropriations to provide urgent counseling support for members of the Military, including members of the National Guard and Reservists, and their dependents. We obtained and reviewed a MIPR to determine if the amount the Program Executive Office received was equal to the amount that the USD(P&R) Quality of Life Office suballocated to DoDEA. We reviewed the statement of work in the contract the Program Executive Office awarded to provide counseling services to members of the Military and their dependents. We reviewed contractor invoices and disbursements to determine if the funds were used for other than the services requested.

Defense Health Program. DHP was the reporting agency for several DoD Components. DHP received emergency supplemental appropriations of about \$19.3 million in FY 2005 and over \$208.1 million in FY 2006 for DoD military health care needs arising from Hurricane Katrina. DHP suballocated the funds to

other Components and Commands. The Components and Commands further suballocated their funds to their Subordinate Components. We judgmentally selected the following Components and Subordinate Components for review.

Army Components. DHP allocated about \$1.4 million emergency supplemental appropriations to Army Components. We judgmentally selected Walter Reed Army Medical Center (Walter Reed) and the United States Army Center for Health Promotion and Preventive Medicine (the Medicine Center) at Aberdeen, Maryland, for review. Walter Reed received \$20,500 and the Medicine Center received \$707,900 of the Army funds. At Walter Reed, we judgmentally selected for review 23 transactions valued at \$27,393 from a spreadsheet of 71 transactions valued at \$41,132. All the transactions had a code identifying them as Hurricane Katrina related. The universe of transactions and our sample exceeded the total amount that Walter Reed received. We traced the transactions to supporting documentation including invoices and travel documents to determine the accuracy of the transaction listing and to determine if the transactions were related to Walter Reed hurricane needs. We also reconciled the invoices to travel vouchers and disbursement reports. At the Medicine Center, we judgmentally selected 45 transactions valued at \$685,899 from a spreadsheet that included 406 transactions valued at \$842,664. The universe of transactions exceeded the funds that the Medicine Center received. We verified the amounts on the transactions to supporting documentation including invoices, payroll records, and travel records to determine the accuracy and reliability of the transaction listing and to determine if the transactions were related to the hurricane needs of the Medicine Center. To verify amounts and dates of billings, we requested and reviewed supporting documentation including invoices, travel vouchers, and other billings and payment documents of the selected transactions.

Navy Components. DHP allocated over \$10.7 million of emergency supplemental appropriations to the Navy Components. We judgmentally selected the Navy Medicine Support Command, Jacksonville; Naval Hospital, Pensacola Florida; and the Naval Medical Center, Bethesda, Maryland for review. These Components received about \$2.8 million of the \$10.7 million that DHP allocated to the Navy. At the Navy Medicine Support Command we obtained a transaction listing of obligations and expenditures valued at about \$1.9 million. We performed 100 percent review of the obligations and expenditures on the listing. We verified the reported amounts with supporting documentation including contracts, invoices, prompt payment certificates, and requests and acceptances for services to determine the accuracy of the transaction listing and to determine if the funds were used for their intended purposes. At the Naval Hospital, Pensacola, we judgmentally selected for review a sample of 60 transactions valued at \$491,795 from a universe of 229 transactions valued at \$581,962. We traced the transactions to supporting documentation to determine the accuracy of the listing and the reported amounts and to determine if the expenses were related to DoD Hurricane Katrina needs. At the Navy Medical Center, Bethesda, we reviewed 100 percent of the universe of the transactions, valued at \$302,628, from the transaction history that was provided to us. We traced the reported amount to delivery documents, receipts, invoices, travel documents, and payment vouchers to determine the accuracy of the reports and to ascertain if the related expenses were for DoD needs arising from Hurricane Katrina.

Air Force Components. DHP allocated over \$82.8 million of the emergency supplemental appropriations to the Air Force Components for their needs arising from Hurricane Katrina. We visited Air Education and Training Command Components located at Keesler Air Force Base (AFB), Mississippi, and Randolph AFB and Lackland AFB, Texas, and obtained documentation by data call for Tyndall AFB, Florida. These bases received a combined amount of about \$63.6 million from DHP through the Air Education Command. We also visited the Air Force Medical Operations agency at Brooks City-Base, Texas, which received over \$13.4 million from DHP through the Air Force Medical Operations Agency at the Pentagon. At each of these sites, we obtained a transaction listing and selected transactions for review. At Keesler AFB we judgmentally selected for review 44 transactions valued at over \$10.2 million from a universe of 58 transactions valued at over \$10.4 million. At Randolph AFB, we judgmentally selected and reviewed 6 transactions valued at \$5,440 from a universe of 30 transactions valued at \$19,815. At Lackland AFB, we judgmentally selected and reviewed 8 transactions valued at \$58,253 from a universe of 13 transactions valued at \$75,077. For Tyndall AFB, we judgmentally selected and reviewed 8 transactions valued at about \$2.4 million from 13 transactions valued over \$26.9 million. At the Air Force Medical Operations Agency Brooks City-Base, we reviewed 100 percent of the universe of transactions valued at about \$15.2 million. We verified the selected transactions with supporting documentation including MIPRs, travel vouchers, billing records, contracts, purchase orders, invoices, and receipt documents to determine if the reported amounts were accurate and were for DoD Hurricane Katrina needs.

Tricare Management Activity (East and West). In FY 2005 and FY 2006, DHP allocated over \$2.4 million of emergency supplemental appropriations to TMA-East and over \$33.8 million to TMA-West. TMA-East provided us with documentation for obligations and expenditures. The documentation included MIPRs, contracts, and invoices. We prepared a transaction listing from the documentation and verified 100 percent of the amounts on the listing to supporting documentation to determine the accuracy of our listing. We also verified the listing to the supporting documentation to determine if the obligations were for DoD needs arising from Hurricane Katrina. TMA-West provided us with a spreadsheet of cost estimates for the impact of Hurricane Katrina on its activities. According to TMA-West personnel, the amounts on the spreadsheet were summary amounts. We were unable to trace the amounts to source documents. In addition, TMA-West was unable to differentiate Hurricane Katrina related costs from other costs.

Defense Logistics Agency. In FY 2005 and FY 2006, the USD(C) allocated over \$26 million of emergency supplemental appropriations to DLA. DLA suballocated the funds to its field offices. We visited the following DLA field offices.

Defense Energy Supply Center. DLA suballocated over \$1.2 million to the DESC. We requested and received a transaction history of the emergency supplemental appropriation from DESC. We judgmentally selected 50 transactions valued at \$424,261 from a universe of 69 transactions valued at \$504,902. We reconciled the reported amounts to supporting documentation including invoices, payment vouchers, and travel vouchers to ascertain the

accuracy of the transaction history and to ascertain if the funds were used for their intended purposes. We also compared the amounts paid to invoices and billing documents to ascertain if the amounts paid were the same as the amounts billed and were valid payments for DoD needs arising from Hurricane Katrina.

Defense Automation and Production Services. DLA suballocated \$147,000 of emergency supplemental appropriations to the Defense Automation and Production Service. We obtained an obligation and expenditure report from the Defense Automation and Production Service. The report included 16 transactions valued at \$147,615. We compared the amounts on the listing to supporting documentation including travel vouchers, purchase requests, delivery receipts, invoices, and DFAS paid vouchers to determine the accuracy of the listing and to determine if the transactions were for DoD needs arising from Hurricane Katrina.

Defense Reutilization and Marketing Service. DLA suballocated \$2.3 million of emergency supplemental appropriations to the Defense Reutilization and Marketing Service. The Defense Reutilization and Marketing Service provided us with a transaction history that included 184 transactions valued at over \$1.4 million. We judgmentally selected 60 transactions valued at over \$1.1 million for review. We verified the reported amounts to supporting documentation such as invoices, billing documents, and payment vouchers to determine if the reported amounts were supported and were for DoD Hurricane Katrina needs.

Customer Operations and Readiness. DLA suballocated \$246,000 of the emergency supplemental to its Customer Operations and Readiness Office (J-4). The J-4 office gave us a transaction listing which included 40 transactions valued at \$119,628. We performed 100 percent review of the transactions on the listing. We compared the amounts on the listing to supporting travel authorization documents, travel vouchers, and DFAS paid vouchers to determine the accuracy of the listing and to ascertain if the transactions were for DoD Hurricane Katrina needs. We recomputed labor hours and overtime pay to determine the accuracy of labor expenses incurred and paid.

United States Special Operations Command. In FY 2005 and FY 2006, the USD(C) allocated \$3.8 million of emergency supplemental appropriations to the United States Special Operations Command (USSOCOM). We visited or contacted the following USSOCOM Components.

Air Force Special Operations Command. USSOCOM suballocated \$173,000 to the Air Force Special Operations Command (the Command). We conducted our audit of the Command through data call. We verified the amount received to funding documents. We judgmentally selected 90 transactions valued at \$40,148 from a spreadsheet provided to us by the Command, which included 242 transactions valued at \$148,280. We verified the selected transactions to supporting documentation including invoices and travel vouchers to determine if the reported amounts on the spreadsheet were valid and transactions were related to the Hurricane Katrina needs of the Command. We verified 25 of the selected transactions to billing documents and payment vouchers to determine if the amounts paid were equal to the amounts billed.

Naval Special Warfare Command. USSOCOM suballocated about \$3.6 million of emergency supplemental appropriations to the Naval Special Warfare Command which also suballocated over \$3.3 million to the Naval Special Warfare Group 4 (NSWG-4) and \$118,000 to the Naval Special Warfare Command-Coronado (Coronado). We visited NSWG-4 and performed the audit of Coronado by data call. We verified the amounts received by the Components to the funding documents to determine if the amounts they received were equal to their suballocations. At NSWG-4, we judgmentally selected for review 40 transactions valued at about \$3.3 million from a spreadsheet of 169 transactions valued at over \$3.3 million that was provided to us. We traced the transactions to invoices, contracts, and travel documents to determine the accuracy of the spreadsheet and to determine if the transactions were for NSWG-4 Hurricane Katrina needs. We also selected for review 13 transactions that were processed and paid by DFAS. We verified the amounts paid to invoices, billing documents, and paid vouchers. For Coronado we performed 100 percent review of 60 transactions valued at \$116,908, which was provided to us on a spreadsheet. We verified the transactions to invoices and statements of work.

Use of Computer-Processed Data. We relied on computer-processed data such as spreadsheets provided to us by the Components to determine the universe of the items we reviewed. We did not evaluate the general and application controls for the systems. We compared the data we received to actual hard copy documents such as funding documents, MIPRs, and contracts to determine the accuracy and reliability of the computer-processed data. Not performing the general and application controls of the systems did not affect the results and conclusions of our review.

Use of Technical Assistance. We did not use any technical assistance in conducting our audit. However, we obtained legal interpretation on the use of funds from Public Laws 109-61 and 109-62 for hurricanes prior to Hurricane Katrina and also on the DCMA use of the emergency supplemental appropriation as a replacement of lost income from the Office of the Assistant Inspector General for Legal Counsel.

Government Accountability Office High Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Financial Management high-risk area.

Prior Coverage

Since August 2005, the Department of Defense Inspector General (DoD IG) has issued three reports discussing the effects on Hurricane Katrina of DoD assets. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

DoD IG Report No. D-2007-081, "Financial Management of Hurricane Katrina Relief Efforts at the U.S. Army Corps of Engineers," April 6, 2007

DoD IG Report No. D-2007-031, "The Effects of Hurricane Katrina on the Defense Information Systems Agency Continuity of Operations and Test Facility," December 12, 2006

DoD IG Report No. D-2007-006, "Hurricane Katrina Disaster Recovery Efforts Related to Army Information Technology Resources," October 19, 2006

DoD IG Report No. D-2006-118, "Financial Management of Hurricane Katrina Relief Efforts at Selected DoD Components," September 27, 2006

Appendix B. DoD Emergency Supplemental Appropriations (Other Than the U.S. Army Corps of Engineers) by Public Law (in thousands)

| | Public Law 109-61 | Public Law 109-62 | Public Law 109-148 ¹ | Public Law 109-234 |
|---------------------------------|----------------------|----------------------|------------------------------------|-----------------------|
| DoD-Wide | | | | |
| O&M ² | \$500,000 | \$1,400,000 | \$ 24,670 | |
| Procurement | | | 10,270 | \$ 2,797 |
| RDT&E ³ | | | 27,812 | 730 |
| DWCF ⁴ | | | 6,140 | 1,222 |
| MILCON ⁵ | | | 45,000 | |
| Army/Guard/Reserve s | | | | |
| Military Personnel | | | 25,353 | 2,125 |
| Reserve Personnel | | | 9,434 | 4,071 |
| Guard Personnel | | | 187,452 | 1,304 |
| O&M | | | 230,444 | 42,307 |
| Procurement of Ammunition | | | 850 | 700 |
| Other Procurement | | | 36,877 | 9,136 |
| MILCON | | | 254,300 | 330,071 |

¹Public Law 109-148 reduced the DoD appropriations in the law by \$737,089,000 and authorized the

Secretary of Defense to allocate the reduction to each applicable appropriated account. The amounts reported are net of the reduction.

²Operation and Maintenance.

³Research, Development, Test, and Evaluation.

⁴Defense Working Capital Fund.

⁵Military Construction.

Appendix B. DoD Emergency Supplemental Appropriations (Other Than the U. S. Army Corps of Engineers) by Public Law (in thousands) (Cont.)

| | Public Law 109-61 | Public Law 109-62 | Public Law 109-148 | Public Law 109-234 |
|--|----------------------|----------------------|-----------------------|-----------------------|
| Navy/Marine Corps/ Reserves | | | | |
| Military Personnel | | | 61,095 | 25,994 |
| Reserve Personnel | | | 30,634 | 12,376 |
| O&M | | | 891,084 | 42,668 |
| Aircraft Procurement | | | 3,277 | 579 |
| Other Procurement | | | 65,167 | 85,040 |
| Procurement of Ammunition | | | 2,210 | 899 |
| Shipbuilding and Conversion | | | 1,688,764 | 775,236 |
| RDT&E | | | 2,092 | 12,000 |
| MILCON | | | 291,219 | 44,770 |
| Family Housing, Construction | | | 86,165 | |
| Family Housing, Operations | | | 48,889 | |
| Air Force/Guard/ Reserves | | | | |
| Military Personnel | | | 89,269 | 21,610 |
| Reserve Personnel | | | 2,014 | 94 |
| Guard Personnel | | | 66,053 | 1,408 |

Appendix B. DoD Emergency Supplemental Appropriations (Other Than the U.S. Army Corps of Engineers) by Public Law (in thousands) (Cont.)

| | Public Law 109-61 | Public Law 109-62 | Public Law 109-148 | Public Law 109-234 |
|--|----------------------|----------------------|-----------------------|-----------------------|
| O&M | | | 513,943 | 38,636 |
| Aircraft Procurement | | | | 13,000 |
| Other Procurement | | | 137,953 | |
| RDT&E | | | 5,269 | 6,250 |
| MILCON | | | 87,612 | 103,100 |
| Family Housing, Construction | | | 278,000 | |
| Family Housing, O&M | | | 47,019 | |
| Other DoD Organizations | | | | |
| Procurement, Weapons & Other Tracked Combat Vehicles | | | 1,360 | |
| National Guard and Reservist Equipment | | | 16,369 | |
| National Defense Sealift Fund | | | | 10,000 |
| Commissary Trust Funds | | | 37,680 | 10,530 |
| Defense Health Program | | | 201,550 | 33,881 |
| Inspector General | | | 264 | 326 |
| MILCON Reserves | | | 70,602 | 24,270 |
| Total | \$500,000 | \$1,400,000 | \$5,584,155 | \$1,657,130 |

Appendix C. Summary of Potential Monetary Benefits¹

| Recommendation Reference | Type of Benefit | Amount of Benefit |
|-----------------------------|-------------------------|----------------------|
| 1.c. | Questioned Cost | \$935,680 |
| 2. | Funds put to better use | \$6,202 ² |

¹Does not include over \$28.9 million that was not efficiently managed and other funds DoD Components used to supplement their emergency supplemental appropriations that should been put to better use.

²Net of DFAS over and underpayment of 10 vouchers. Amount could be potentially more after DFAS reviews of all 267 paid vouchers.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Under Secretary of Defense (Personnel and Readiness)
Director, Quality of Life Office
Assistant Secretary of Defense for Homeland Defense
Director, Program Analysis and Evaluation

Joint Staff

Director, Joint Staff

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Combatant Commands

Commander, U.S. Northern Command
Commander, U.S. Special Operations Command

Other Defense Organizations

Director, Department of Defense Education Activity
Director, Defense Contract Management Agency
Director, Defense Finance and Accounting Service
Director, Tricare Management Agency
Director, Defense Information Systems Agency
Director, Defense Logistics Agency

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Oversight and Government Reform
House Subcommittee on Government Management, Organization, and Procurement
Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs Committee on Oversight and Government Reform

Under Secretary Defense (Comptroller) Comments



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

AUG 3 2007

COMPTROLLER

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING
SERVICE, OFFICE OF INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report entitled "Emergency Supplemental Appropriations for DoD
Needs Arising From Hurricane Katrina at Selected DoD Components,"
(Project No. D2006-D000FE-0010.002)

This memorandum is written in response to the subject June 14, 2007 draft report provided to this office for review and comment. Upon review of the draft report, we concur with the Office of Inspector General (OIG), Department of Defense (DoD) Recommendation 1c and partially concur with Recommendations 1a, 1b, and 1d. Our detailed response to the report findings and recommendations is outlined in the attachment.

The Department appreciates the opportunity to comment on the subject report. My staff point of contact on this matter is Ms. Joy Marcou. She can be contacted by telephone at 703-697-3135 or e-mail at joy.marcou@osd.mil.

A handwritten signature in black ink, appearing to read "R. P. McNamara".

Robert P. McNamara
Acting Deputy Chief Financial Officer

Attachments:
As stated

**Draft Report on Emergency Supplemental Appropriations for DoD Needs Arising
From Hurricane Katrina at Selected DoD Components
(Project No. D2006-D000FE-0010.002)**

The Department of Defense (DoD) Office of the Inspector General, recommended that the Under Secretary of Defense (Comptroller) (USD(C))/Chief Financial Officer:

RECOMMENDATION 1a: Develop a formal process for DoD Components to identify their needs in emergency situations, review their needs and funding requirements, request additional funding when necessary, and return funding in excess of their needs to the Comptroller.

DoD RESPONSE: Partially concur. A formal process currently exists for Components to identify needs in emergency situations and is outlined in the DoD Financial Management Regulation ("DODFMR") Volume 12, Chapter 23, "Contingency Operations." In order to improve on the existing guidance, OUSD(C) Program/Budget will update this chapter to address issues related to domestic contingencies, no later than November 2007. The revision will include the requirement that Components be prepared to quickly and accurately assess, develop, and support operational needs when requesting supplemental funds. Once funds are received the Components must continually re-assess requirements, especially when approaching fiscal year-end, and ensure excess funds are identified and returned expeditiously. Information on managing supplemental funds issued from transfer accounts and funds that bridge fiscal years will also be included.

The OUSD(C) will also address Component responsibilities for managing supplemental appropriations for disaster operations in the annual memorandum, "Financial Management Preparation for 2007 Hurricane Season," to be issued in August 2007.

RECOMMENDATION 1b: Perform an independent assessment and determine whether a formal investigation should occur for potential Antideficiency Act (ADA) violations related to the Defense Contract Management Agency's (DCMA) use of emergency supplemental appropriations to purchase computer equipment.

DoD RESPONSE: Partially concur. In accordance with the "DoDFMR", Volume 14, Chapter 3, the USD(C) does not perform independent assessments to determine whether formal investigations are required, but instead, may request the affected Component to perform a preliminary review and provide USD(C) with the results of that review. In this

Attachment

instance, DCMA voluntarily performed a preliminary review that revealed DCMA had violated the Purpose Statute and created a potential ADA violation. The DCMA has corrected the violation.

RECOMMENDATION 1c: Require the Director, Defense Logistics Agency (DLA), and Director, Defense Health Programs (DHP), to work with the Defense Finance and Accounting Service and the U.S. Northern Command to seek reimbursement from the Federal Emergency Management Agency (FEMA) for funds expended on the FEMA mission assignments.

DoD RESPONSE: Concur. The DLA and DHP are both actively working with DFAS and USNORTHCOM to verify costs and bill FEMA, no later than September 30, 2007. As part of the procedures for closing Hurricane Katrina mission assignments, OUSD(C) will monitor the progress of DLA and DHP until the FEMA orders are closed.

RECOMMENDATION 1d: Require DoD Components to develop unique accounting codes to track and record the use of appropriated funds for their needs arising from disasters and civil emergencies.

DoD RESPONSE: Partially Concur. OUSD(C) agrees that all costs recorded in the accounting system for disasters or civil emergencies should be supported by coding to identify each event. This requirement was reinforced in the USD(C) memorandum issued June 1, 2006, "Financial Management Preparation for 2006 Hurricane Season," and will be included in the USD(C) FY 2007 memorandum, to be issued in August 2007, and the U.S. Northern Command FY 2007 Hurricane Execute Order. However, OUSD(C) does not require coding for costs that are not readily available in the accounting system, such as flying hours, but allows for an alternate methodology. This process is outlined in the USD(C) memorandum dated June 23, 2005, "Reporting of Hurricane Katrina Relief Costs," which follows the Contingency Operations cost reporting guidance issued in the "DoDFMR" Volume 12, Chapter 23.

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
P.O. BOX 182317
COLUMBUS, OHIO 43218-2317

DFAS-JBI/CO

JUL 11 2007

MEMORANDUM FOR DIRECTOR, DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Management Comments to DoDIG Draft Audit Report "Emergency Supplemental Appropriations for DoD Needs Arising From Hurricane Katrina at Selected DoD Components," Project Number D2006-D000FE-0010.002, dated June 14, 2007

In accordance with subject draft audit report, management comments are provided for Recommendation 2. Our office non-concurred with Recommendation 2 and consider the recommendation closed.

My point of contact for additional information is Gary Bethea, DFAS-JBI/CO, at 614-693-0840 or DSN 869-0840.

A handwritten signature in black ink, appearing to read "Carlton E. Francis", is positioned above the printed name.

Carlton E. Francis
Deputy Director, DFAS Columbus

Attachment:
As stated

www.dfas.mil
Your Financial Partner @ Work

Management Comments to DoDIG Draft Audit Report “Emergency Supplemental Appropriations for DoD Needs Arising From Hurricane Katrina at Selected DoD Components,” Project Number D2006-D000FE-0010.002, dated June 14, 2007

Recommendation 2: We recommend that Director, Defense Finance and Accounting Service, perform an audit of travel and relocation vouchers paid with the emergency supplemental appropriations to Defense Contract Management Agency employees and take corrective actions based on the results of the audit.

Current Management Comments: Non-concur. The DFAS Columbus Travel Office generally concurred with the DoDIG findings and recommendations during the discovery phase of the audit. We have taken the specific steps and corrective actions to address the deficiencies identified by the DoDIG. We agree that the initial DFAS 100 percent audit of 267 DCMA Hurricane Katrina evacuation vouchers disclosed a very high error rate. As a result, the appropriate debt collection letters, as well as underpayment letters, were sent to travelers incorrectly paid.

In addition, DFAS Columbus Travel Office completed a review to determine the possibility or extent of systemic problems/issues involved in the high error rate. The review identified the following issues: (1) the travel office staff's unfamiliarity with payment of evacuation claims; (2) the complexity of the payments; (3) the requirement to expeditiously process evacuation vouchers due to the circumstances of the travelers; (4) many computation and judgment errors on the part of technicians led to the high error rate. Also, though there was a significant system (WinIATS) enhancement package implemented two weeks after the travel office started processing evacuation claims, less than 10 DCMA claims were paid prior to the change being implemented.

Subsequently, the DoDIG initiated a review of the 267 audited vouchers by DFAS Columbus Travel Office. Because 11 of the 13 audited vouchers were in error, the DoDIG terminated their review. The DFAS Columbus Travel Office provided justification and support to the DoDIG showing that only 5 of 13 evacuation vouchers were incorrectly computed. Of the five incorrect vouchers, three error amounts were less than \$33 dollars, of which one was an eighty-nine cent audit spreadsheet error. The remaining two errors were underpayment amounts of \$133 and \$55 dollars respectively.

Also, the DoDIG identified that one employee was incorrectly paid \$1,500 per month for lodging expenses claimed for four months (\$6,000) based on handwritten receipts. The employee provided handwritten receipts for four of the four months, and not three of the four months as stated by the DoDIG. However, under normal circumstances, the DFAS Columbus Travel Office does not receive or process “atypical” receipts for lodging as they did for several of the hurricane evacuation claims. Furthermore, we provided the DoDIG with a copy of the Joint Travel Regulation (JTR) Volume II, para C1310, which shows that a handwritten receipt is within the regulation guidelines for sufficient documentation for a lodging receipt.

The DFAS Columbus Travel Office has completed the following additional corrective actions to ensure adequate internal controls are in place and address the deficiencies identified by the DoDIG: (1) reviewed the other 254 "audited" vouchers again to ensure there are no more "questionable" or handwritten lodging receipts; (2) random check of several vouchers and audit computations to ensure the WinIATS system was properly computing the reduced per diem rate (when applicable, i.e., after first 30 days of TQSE), and this did not identify any other "atypical" receipts or system problems for computing per diem; (3) DFAS Columbus Travel Office has shared the audit results and lessons learned for processing emergency evacuation vouchers with the DFAS Indy travel office.

In summary, the DFAS Columbus Travel Office does not concur with the recommendation to conduct another 100 percent audit of DCMA Hurricane Katrina evacuation vouchers. Such actions would not be cost effective and place additional burden on DoD employees affected by the Hurricane Katrina disaster.

Estimated Completion Date: Recommendation is considered closed.

Defense Commissary Agency Comments



REPLY TO
ATTENTION OF

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
1300 E AVENUE
FORT LEE, VIRGINIA 23801-1800

CC

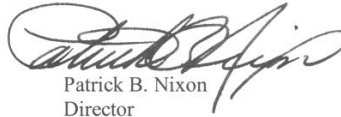
JUL 2 2007

MEMORANDUM FOR DEPARTMENT OF DEFENSE, INSPECTOR GENERAL
(ATTN: AUD-DFS)

SUBJECT: Report on Emergency Supplemental Appropriations for DoD Needs Arising from
Hurricane Katrina at Selected DoD Components (Project No. D2006-D000FE-
0010.002)

While there were no recommendations for the Defense Commissary Agency, please find
attached our comments to the subject report for your consideration when you finalize your
report.

If you have any questions or comments, please contact Ms. Diana Graff at (804) 734-8103,
DSN 687-8103, or diana.graff@deca.mil.


Patrick B. Nixon
Director

Attachment:
As stated

Patrons, Workforce and Stakeholders working together to create "Raving Fans."

Defense Commissary Agency Comments
Report on Emergency Supplemental Appropriations for DoD Needs Arising from Hurricane Katrina at Selected DoD Components (Project No. D2006-D000FE-0010.002)

The Defense Commissary Agency (DeCA) does not concur with the Table #2 footnote "DeCA obligated \$1.5 million for non-accountable property lost. We consider this obligation to be overstated, but we cannot quantify the dollar amount" as DeCA properly accounts for purchased property IAW DoD regulatory requirements.

Reference page nine, first paragraph, line seven, "Specifically, DeCA, the Defense Contract Management Agency, ... that received funding through the Department of Defense Education Activity (DoDEA) did not manage a total of over \$26.8 million of emergency supplemental appropriates efficiently."

In Table 2 shown on page nine, DeCA Total Funds Obligated are \$52.7M, Funds Not Managed Efficiently are listed as \$0.0 with a footnote below "DeCA obligated \$1.5 million for non-accountable property lost. We consider this obligation to be overstated, but we cannot quantify the dollar amount."

DoD Instruction Number 5000.64 dated November 2, 2006, subject: Accountability and Management of DoD-Owned Equipment and Other Accountable Property is the current DoD guidance for establishment of property records. This regulation specifies accountable property records shall be established for all property purchased, or otherwise obtained, having a unit acquisition cost of \$5,000 or more, leased assets (capital leases) of any value, and assets that are sensitive or classified (see Volume 10 Table 61 of DoD 4100.39M). Also, property record supporting documentation shall be maintained in accordance with DoD Directive 5015.2, Reference 1.

The non-accountable property in question consists of all equipment items valued at less than \$2,500 each per DeCA policy guidance. These equipment items are used in commissary store retail shopping areas, as well as backroom supply, administrative offices, and food preparation areas. These equipment items are purchased at or below the \$2,500 threshold and consist of such items as shopping carts, display racks, training area furniture, pieces of replacement shelving to replace original shelving, and other small equipment articles. Non-accountable items purchased with emergency supplemental funds were used to establish and furnish the two temporary stores at Gulfport and Keesler after Hurricane Katrina destroyed the two existing stores. The emergency response teams and follow-on personnel sent to the temporary store sites purchased a majority of these items for the temporary stores in the first 4 weeks following the disaster. A few of the items were available in other DeCA stores and transferred to the gaining store to fulfill immediate need of the items in question.

The Agency headquarters provided DoD IG auditors with a non-accountable equipment purchase history of 35 percent of the total equipment purchases for the hurricane-damaged stores. The Agency does not maintain property records for the non-accountable property because there is no regulatory requirement to maintain property records as noted above. The Agency did post property records for accountable items, as required by DoD 4100.39M. The Agency's estimate for

Attachment

non-accountable property expenses are based on conservative, historical percentages of equipment purchased in the two prior fiscal years and current year obligations from those equipment items reported to the Defense Property Accountability System.

FY 2005 total store operation equipment purchases totaled \$24,500,000. FY 2005 accountable equipment purchased and recorded was \$14,260,774, or 58.2 percent of the total equipment purchases. FY 2005 non-accountable equipment purchased was \$10,239,226, or 41.7 percent of equipment purchases. (Includes September 2005 when we established two temporary stores on short notice.)

FY 2006 total store operation equipment purchases totaled \$26,300,000. FY 2006 accountable equipment purchased and recorded was \$8,201,099, or 31.2 percent of total equipment purchases. FY 2006 non-accountable equipment purchased was \$18,098,901, or 68.8 percent of equipment costs. (This includes the existing NCBC Gulfport Commissary reopening with all new equipment after being completely gutted, rehabbed, and refurbished.)

FY 2007 total store operation equipment account budgeted is \$20,381,000. Total obligations in DBMS as of March 31, 2007, were \$13,760,660. FY 2007 accountable equipment purchases recorded in DPAS as of March 31, 2007, were \$4,821,812, or 35 percent of total obligations to date. FY 2007 non-accountable equipment purchased is \$8,938,848, or 64.9 percent of current obligations.

Additionally, the anticipated store equipment list for the new Keesler AFB, Mississippi, commissary to replace the one destroyed in Hurricane Katrina totals \$2,146,169 at this time. Of this amount, \$1,644,299 was for accountable property items and \$501,870 for non-accountable equipment items, or 23 percent of the total equipment purchases. These equipment items are taken from the preliminary, draft equipment listing not yet finalized. The building has only recently broken ground and we anticipate grand opening of this new store in July 2009. The equipment items will be purchased in FY 2008 and 2009 using supplemental funding provided to DeCA specifically for the new Keesler AFB store.

Based on historical reported DPAS accountable property records, DeCA annually spends 35 percent or more of their annual store operation equipment account for non-accountable equipment items. The estimate of 35 percent was conservatively valid when provided to the DoD IG and no changes are anticipated at this time. In the days following the disaster, establishing a source of food and water for emergency response teams sent on-site by the Military Services in a temporary facility was the primary objective for the DeCA teams on-site at Gulfport and Keesler. As such, accounting for each \$88 shopping cart and other non-accountable equipment record-keeping activities was not fully possible in order to make operational plans successful.

The Agency's goal to open temporary stores for the convenience and service of the people responding to these two installations was fully supported and encouraged by OSD. Based on these historical percentages, 35 percent of all equipment purchases being non-accountable equipment is valid, financially conservative, and well within reason. Additionally, DeCA fully complied with DoD regulatory requirements for the accountability of "accountable" and "non-accountable" equipment purchased below the DoD cost threshold.

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